

ICC/USF Reform and the Impact on Rural America

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Reform of ICC/USF Generally

- **The Intercarrier Compensation Regime and the Universal Service Fund played critical roles in the 20th Century for the ubiquitous availability of voice service.**
 - The existing programs have been overwhelmingly successful – 98% of American households have access to wireline voice service.
- **Reform of ICC/USF is necessary for universal service of 21st Century broadband technology and to preserve quality of service to rural America.**
 - Frontier recognizes and supports the need to modernize the existing programs to explicitly fund high-capacity broadband networks in the high-cost, unserved areas of rural America.
- **Important to recognize, however, that we are not starting with a blank slate; all reform must include an appropriate transition away from existing support mechanisms.**

Broadband in Rural America

- **The Cost of Providing Service in Rural America**
 - Both traditional voice and broadband services are extremely costly to provide in rural America:
 - Low density areas, often with difficult geography, require high initial investment for deployment of facilities.
 - Once deployed, the cost of providing service and maintenance of facilities exceeds rate payments by subscribers – even assuming 100% subscribership.
 - These costs escalate when “phantom traffic” utilizes the network without compensating the rural carriers.
- **The Business of Providing Service in Rural America**
 - Rates alone do not cover the costs of providing service in the low density, high cost parts of rural America. Revenues from ICC and USF are used to offset costs, while providing services comparable to those available in high density, urban markets.
 - Income levels in rural markets are generally lower than in urban/suburban markets, while service costs are higher.

ICC Reform

- **Substantial challenges associated with ICC reform:**
 - Loss of ICC Revenues: Companies committed to providing service to rural America – such as Frontier – use funding through ICC to continue broadband deployment, invest in network upgrades and maintain infrastructure. As intercarrier compensation rates are reduced over time a measured transition process will be essential to ensure ongoing support for these high cost rural areas.
 - An Access Replacement Mechanism (ARM) will ensure a glide path to a more rational support regime, while limiting rate increases on rural, high-cost customers.
 - Resolution of the issues of phantom traffic and VOIP calls are also critical to the reform process to ensure that those companies investing in broadband infrastructure in high cost, low density rural markets are appropriately compensated when others utilize the infrastructure.

USF/CAF Reform

- **USF/CAF Support Now**
 - Although the current USF does not directly support broadband, it is used to support the underlying infrastructure that supports broadband deployment.
 - Frontier has been able to deploy broadband to 92% of its legacy territory, due in part to USF. In contrast, broadband deployment in the newly acquired markets was around 60%.
- **USF/CAF Reform Now:** the Commission can take steps now to achieve the goal of shifting existing USF from supporting just voice service to supporting broadband directly.
 - IAS: This is a critical source of broadband support and any immediate retargeting would impede ongoing rural broadband deployment. A transition process is critical. Commission should require existing recipients to certify they are using support for investments and operations of broadband infrastructure instead of rapid elimination of support.
 - High Cost Model and price cap High Cost Loop: the Commission should target this support to the highest cost wire centers, which would make this existing support available to a wider range of areas that most clearly need it.
- **USF/CAF Reform Pitfalls**
 - CapEx-only support. Any fund must support both CapEx and OpEx.
 - Reverse auctions. Reverse auctions, as currently proposed, do not address challenges associated with providing ongoing service to high cost areas.